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Discussion Paper

Appropriate Offshore Fish Harvesting Technology:

An Assessment of the Detrimental Effects of the use of Factory Freezer Trawlers

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Minister of Fisheries

September, 1985

GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

DISCUSSION PAPER

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INTRODUCTION

Several times in recent years, attempts have been made to obtain approval for the deployment of factory freezer trawlers in the waters off the coasts of Newfoundland and Labrador. These attempts have failed because this technology is unnecessary and because it bears too high a cost in terms of lost jobs.

A firm federal policy, which is fully supported by the Government of Newfoundland and Labrador, prohibits the use of factory freezer trawlers. This policy is reflected in an Agreement between the Government of Newfoundland and the Government of Canada which, among other things, confirms that policy with respect to northern cod. Notwithstanding these considerations, an application for approval of a factory freezer trawler has once again been submitted to the Government of Canada, and is primarily based on the exploitation of northern cod, a resource synonymous with the rural economy of Newfoundland and Labrador.

This application, by National Sea Products Limited, requests approval to base a factory freezer trawler in Lunenburg, Nova Scotia to prosecute a fishery off the northeastern coast of Newfoundland. This application also anticipates that up to four of these vessels will be utilized in the Atlantic fishery by

1988. Any application of this type must be rejected on the basis of sound public policy. In addition there are several misconceptions of fact in the National Sea application and a Federal Discussion Paper on this issue which must be corrected.

Therefore, the firm policy position of the Government of Newfoundland and Labrador is that there should be no change in the existing policy which prohibits the utilization of factory freezer trawlers. This position is soundly based on seven arguments:

1) The introduction of factory freezer trawlers would violate an important Federal/Provincial Agreement, and therefore raises a significant Federal/Provincial issue.

2) It is mistaken, as well as dangerous, to assert that factory freezer technology is necesary to supply a top quality product to export markets.

3) The introduction of factory freezer trawlers would lead to significant net loss of onshore processing jobs, and a precarious future for many Atlantic communities.

4) The unneccessary utilization of distant water technology such as factory freezer trawlers would negate Canada's natural strength of being located adjacent to its marine resources.

5) The issuance of a factory freezer trawler licence would, in all probability, prejudice Canada's position in an arbitration on the meaning of key language of the 1972 Agreement between Canada and France on their mutual fishing relations.

6) The introduction of factory freezer trawlers would imperil the market-driven strategy encouraged by the Enterprise Allocations system.

7) Any policy supportive of factory freezer trawlers would be an economically inefficient policy.

Each of these arguments is sufficient reason to maintain Canada's present policy against the deployment of factory freezer trawlers in the Atlantic fishery, especially against northern cod. Taken together, they prove that only one decision is consistent with sound fisheries management: **factory freezer trawlers must continue to be prohibited.** Only this alternative affirms the community dependence on employment generated in the

fishery; the superior performance that has been obtained using existing technology; and, the absence of a need to embrace distant water fishing capacity in domestic waters. First and foremost, however, the application must be rejected on the basis of clause 12 of the Canada-Newfoundland Fisheries Restructuring Agreement.

Notwithstanding these policy concerns, the Government of Newfoundland and Labrador is obligated to correct the distortion associated with the National Sea application. Similar distortion if not corrected could be used by other applicants.

1. CLAUSE 12 OF THE 1983 FEDERAL-PROVINCIAL FISHERIES RESTRUCTURING AGREEMENT

Clause 12 of the Canada/Newfoundland Fisheries Restructuring Agreement, dated September 26, 1983 states: **Factory trawlers will not be permitted to harvest northern cod.**

This Agreement also confirms that the common objectives of both governments in participating in restructuring include finding **"..a just and lasting solution for the rebuilding of the deep sea fishery which recognizes the fundamental role which the fishing industry plays in Newfoundland and Labrador".** This objective would be severely impaired if the current policy on factory freezer trawlers was changed. It would be a clear breach of the unambiguous meaning of Clause 12.

The Presentation of the Government of Newfoundland and Labrador to the Federal Cabinet Committee on Fisheries Restructuring, on March 23, 1983, highlighted the importance of this issue to the economic basis of the fishery in this Province:

Rejection of Factory Trawlers:

> "... the Government of Newfoundland and Labrador believes that the fish stocks in the waters adjacent to this Province must be used for the benefit of Newfoundlanders and Labradorians. The maximum

> benefit can be achieved by the processing of fish within the Province and we intend to take every possible measure to encourage such processing and to ensure that fish products are processed as much as possible into the form which consumers prefer. We object strenuously to the concept of factory trawlers whereby primary processing would take place at sea. Indeed, Newfoundland wishes to express at the outset its strong opposition to any agreement for corporate restructuring which would facilitate the deployment of factory trawlers, harvesting Northern cod. It is our understanding that certain corporate plans have been formulated whereby companies recapitalized under the present process would participate in the harvesting of Northern cod through factory trawlers."

After considerable debate on the merits of this issue, the Federal Government by the inclusion of Clause 12 bound itself to continue this policy as a fundamental precondition of the participation of both parties in the Restructuring Agreement. It should be appreciated that this Agreement was based on a balancing of various concerns on the part of both Governments. Clause 12 accommodated a most serious concern of the Province.

The views of the federal Minister of Fisheries and Oceans reflected the confidence of both parties that a truly significant milestone had been reached in the Newfoundland offshore fishery. He stated on September 26th, 1983 that:

> "The agreement we have signed today is, without doubt, **the most important bilateral agreement the Federal and Newfoundland Governments have signed since Newfoundland joined Canada in 1949.** We say that because this agreement ensures the long term economic viability the Newfoundland deep-sea fish industry, represent long-term commitment of both governments to work joint together to achieve that goal."

The Restructuring Agreement was subsequently ratified by the Legislature of Newfoundland and given effect by the Parliament of Canada. The Federal Minister of Fisheries and Oceans indicated on the floor of the House of Commons that

> "... The need for maximum employment is one of the reasons why, for instance, during my tenure, I will not allow trawler plants. That is the policy of the Canadian Government as approved by Cabinet".

In addition, this policy was again reiterated in the document "Enterprise Allocations for the Atlantic Offshore Groundfish Fishery", dated December 22, 1983 and restated in the 1985 Enterprise Allocations Policy statement.

The prohibition of factory freezer trawlers in the Atlantic fishery is a sound policy. It has formed a central role in one of the most significant federal/provincial agreements ever signed between Newfoundland and Canada. A change in this policy involving northern cod in particular would be a serious breach of trust. It would cast into doubt the security of other long-term commitments.

The breach of a significant Federal/Provincial Agreements would create a serious precedent with implications for all of Canada. The nature of Canada, in which both orders of government have constitutional autonomy in

certain spheres, has lead to the evolution of the Federal/Provincial Agreement as an important institution of government. The unilateral breaching of such a significant agreement would undermine the effectiveness of a mechanism which has evolved into one of the most important instruments of government in Canada, and which plays a key role in the smooth working of Confederation.

2. QUALITY AND MARKETING OF EXPORTS

The main thrust of the National Sea application is that factory freezer technology is necessary to secure access to premium markets in the United States, Japan and other countries. It is imperative that this suggestion be rejected in the most forceful manner possible as it implicitly challenges the recognized quality of product which is currently being exported from Canada to premium markets.

Companies are supplying these markets with increasing success through optimal utilization of existing technology. In particular, Fisheries Products International Limited (FPIL), and other Canadian Companies are currently earning an increasing share of premium export markets without undercutting prices and without freezing **any** fish at sea. An impartial assessment of the quality of exports and market performance of National Sea's primary domestic competitor should eliminate any suggestion of the necessity to utilize factory freezer trawlers. **Canada is now replacing Iceland, for example, as a supplier of quality production to the leading U.S. food service market.**

Leading processors in the United States have indicated that competitiveness in the premium food service market is completely unrelated to the use of factory freezer trawlers.

Over the past three years, Canadian processors have reduced Iceland's share of sales to the largest and most quality-conscious customer in the U.S. by approximately 40 per cent. The needs of this major customer are being met exclusively by wetfish trawler and inshore technology, to an amount of approximately 50 million pounds annually of the most selective premium fillets.

The factory freezer trawler is a declining technology in Norway. The Icelandic Government is opposed to the addition at new factory freezer capacity, and the Norwegian Government maintains a firm policy of only allowing replacement of existing factory freezer trawlers. It is significant that neither Iceland nor Norway uses factory freezer trawlers to supply the premium segments of the United States market. **These countries have adopted this policy because they recognize fully that it is dangerous to promote a distorted perception of the quality of frozen-at-sea fish because this unjustifiably impairs the quality image of fish produced using wetfish and inshore technology and could impact adversely on existing price structures.** For these reasons, Canada must also continue its rejection of factory freezer technology. The policy of these countries demonstrates that National Sea has done a disservice to the Canadian fishing industry by distorting the quality issue. This concern has already been raised by various groups in the industry and indeed has forced National Sea to clarify its position on this most sensitive matter.

The danger of undermining the quality perception of Canada's fish exports is a very real risk and should be addressed without delay. The simple fact of the matter is that superior quality of factory freezer production is a myth. This is substantiated by the conclusion of an appendix to the Federal Discussion Paper entitled "Quality and Marketing Considerations for Wetfish, Freezer and Factory Freezer Technologies". which states:

> **"The production of superior quality fish products requires that superior quality raw material be handled carefully, processed quickly and correctly,and packaged and graded consistently. It is not directly dependent upon vessel or processing facilities and can be achieved with or without factory freezer trawler technology, utilizing freezer trawlers, wetfish or inshore vessels".**

This analysis supports the well-established fact that the "highest possible quality" product can be produced from wetfish trawlers or inshore vessels. This is also confirmed by the experience of Fishery Products International and other companies in achieving highest quality results using available technology. It is our understanding that Canadian wetfish trawler operators, including National Sea, have demonstrated that redfish suitable to the demanding requirements of the Japanese markets can be produced. Better handling techniques, increased boxing of harvested fish, and continuing research into harvesting methods should produce further gains in quality. However, these gains can only be made by processors committed to quality improvement.

The federal Discussion Paper referenced above stresses that the length of delay between harvesting and bleeding is the

single most important factor in quality. Most major United States markets also demand that fish undergo rigor before processing. This requirement poses technical problems for the production of premium fish products on board factory freezer trawlers. Indeed, the federal Discussion Paper highlights the difficulty of producing premium packs on a factory freezer trawler, and therefore calls into question the overall quality/marketing linkage on which National Sea has based its application.

There is a lack of awareness within Canada of the quality and market gains that have been made by Fishery Products International and other companies in the very U.S. markets in which National Sea wishes to sell its frozen-at-sea cod fillets. The National Sea application proposes to divert a certain amount of northern cod to so-called higher profit products from apparently poorer profit products which are currently produced. They propose to do this using factory freezer trawlers, a prohibitively expensive and unnecessary technology. A more economically sound course of action would be make use of the comparative advantage of processing capacity located immediately adjacent to the resource, and to direct a higher percentage of their catch into premium packs, using state of the art wetfish technology.

It is not accurate for National Sea to state that "there is an increasing demand in the USA marketplace for higher

quality products than can be produced in shore-based plants".[1] It is equally untrue to suggest that Iceland and Norway are "quickly adding FFT capacity"[2] for supplying the premium frozen fillets to the American market. Factory freezer trawlers are not necessary to remain competitive in the premium and frozen fillet market. In fact, the use of factory freezer trawlers would undermine the competitiveness of existing exports into these markets. Indeed, one of the leading marketing experts in the United States has recently indicated that approval of the application will clearly undermine the admirable progress made in the U.S. market by various Canadian companies, without the benefit of factory freezer technology.

Finally, much has been said about the loss of a particular market segment by National Sea because of an alleged inability to compete with Pacific cod. Yet nothing has been said about a far greater displacement of premium Icelandic production by Canadian producers (primarily Newfoundland) using wetfish and inshore technology. National Sea should clarify whether in fact it was advised well in advance that unless it readjusted its price downwards, that it could not hold the "Skipper's" account it claims to have lost. According to U.S. sources, this point seems to be borne out by the significantly lower price paid for the Pacific cod product. National Sea cannot hope to overcome such price considerations by simply acquiring factory freezer technology.

[1] NSP Application, p. 11
[2] IBID, p. 15

3. DISPLACEMENT AND LOSS OF JOBS

A most important reason for continuing the present policy is that the use of factory freezer trawlers would inevitably cast into doubt the economic security of many communities which are crucially dependent on the processing industry. As our analysis shows, four factory freezer trawlers will eliminate up to 1200 person-years of employment in the Atlantic fishing industry. The federal Discussion Paper admits that as many as 580 person-years would be lost if four factory trawlers were used, however this is an underestimation. Furthermore, in a highly seasonal processing industry, the actual number of jobs lost would be significantly higher than the person years of employment lost. For example, if we assume that an average fish processing job lasts 6 months, the number of jobs that would be lost would be double the person-year loss.

Job displacement must be evaluated using recognized industry standards to compare the relative amount of labour required to bring an equivalent amount of fish to the processed form. The recognized industry standard for shore-based processing is that about 25 person-years are

necessary to produce 1000 tons of groundfish to the fillet stage. According to the National Sea application, each factory freezer trawler would harvest up to 15,000 tons of fish. This would require a shore-based labour contribution of 375 person-years. To this figure must be added the 30 person-years of displaced labour from two wetfish trawlers . Therefore, in total, 405 person-years of employment could be displaced by each factory freezer trawler.

A factory freezer trawler can be expected to employ 70 people full-time. As the vessel would normally carry 1.5 persons for each position (this extra 35 jobs being regarded as full-time because of the higher rate of pay), each vessel would employ approximately 105 person-years.

Comparing these two figures, each factory freezer trawler could produce a net displacement of 300 person-years of employment. If four factory freezer trawlers were deployed, the net displacement could be 1200 person-years of employment. In addition, a number of jobs in the short term would go to foreign workers because of Canadian inexperience with factory freezer technology. Furthermore, a high proposition of displaced workers would be female.

It must be reiterated that 1200 person-years of employment is not an accurate reflection of the total number of **jobs** that could be affected, especially in a seasonal fishery. It may be regarded as a **minimum** if we make the unrealistic assumption that only full-time jobs will be displaced. If we adopt the 6-month job as reflecting the seasonal aspect of processing in Newfoundland and elsewhere, the lost person-years would eliminate twice that number of jobs (2400 jobs).

The effect on employment is more serious when we recognize that the addition of each factory freezer trawler could result in the removal of the economic base of a single-industry town of 1500 to 3000 residents. The majority of fisheries dependent communities in Eastern Canada are single-industry towns, where no alternative employment is available. Furthermore, it must not be forgotten that wet-fish technology is more likely to produce employment spin-offs in the community than factory freezer technology. The major spin-off is the repair and servicing of wetfish trawlers in the home port. No attempt has been made in the application or the discussion paper to analyse what form employment spinoffs might take. Nor has there been any attempt to assess the social implications

of the likely shift from a predominantly female to predominantly male workforce if factory freezer trawlers are substituted for wetfish trawlers.

In conclusion, each factory freezer trawler could potentially displace 300 net person-years of employment and as many as 600 jobs. When placed in the context of the broader implications for the economic security of communities currently dependent on fish processing, the costs are unacceptably high, both from an economic and social perspective.

4. THE NATURAL ADVANTAGE OF CANADA'S PROXIMITY TO FISH STOCKS: AN ADVANTAGE FOR REGIONAL DEVELOPMENT

The principle of comparative or natural advantage or building on areas of strength simply means that we pursue economic activity in the most efficient way and/or location. The natural advantage of the northern cod resource is simply that it is located adjacent to a particular part of Canada. It makes economic sense to harvest that resource from that part of Canada. If Canada follows that course, it can harvest that resource using the most economic and most efficient technology. If Canada chooses to harvest that resource from some more distant parts of Canada it will be forced to use an uneconomic and, therefore, inefficient technology.

The federal government, in Mr. Wilson's Economic Statement of November, 1984, stated that the Canadian economy must develop on the basis of its comparative advantages and its natural economic strengths. This principle was adopted earlier by the Government of Newfoundland in its presentation to the MacDonald Royal Commission. It was also re-affirmed by the federal government, and the governments of all ten provinces and the two territories, in a "Regional Economic Development, Intergovernmental Position Paper" released in June, 1985.

Therefore, in order to capitalize upon Canada's natural advantage, the northern cod resource in particular should be harvested from Newfoundland, using conventional wet fish trawler technology. To do otherwise would be prohibitively expensive to the economy as a whole, and would negate this natural advantage. It could preclude, perhaps forever, the development of a profitable east coast fishery. It would contradict the Canadian policy of building upon natural advantages.

Canada argued before the United Nations Conference on the Law of the Sea, in the 1970s, that the primary economic benefit from the fisheries resources of the continential shelf should accrue to the coastal communities adjacent to that resource. This was the argument which supported our extension of fisheries jurisdiction to 200 miles in 1977, and it is the basic principle upon which the Government of Newfoundland and Labrador views domestic allocation policy.

Restoration of many of the groundfish resources, most notably northern cod, has since 1977, returned to Canada a competitive edge throughout the world as being adjacent to rich fishing grounds, negating the need for distant water fishing technology. There has been an increasing international trend to undertake fish processing by coastal states which have this

comparative or natural advantage of location. By having the experienced workforce, and the required harvesting and processing capacity adjacent to the resource, Newfoundland can now use this competitive edge over the other foreign suppliers of North Atlantic groundfish, especially cod, to stabilize the economy and society of rural Newfoundland.

The north-east coast of Newfoundland and Labrador is contiguous to 93% of the resources which National Sea proposes to harvest under its fishing plan for a factory freezer trawler. Apart from cod; redfish, flounder and other species are located sufficiently close to Newfoundland to undermine any argument that a factory freezer trawler is necessary to process these resources. The existing overcapacity in Newfoundland plants justifies the landing of as much of the adjacent fish resources in these plants as possible. It is rather ironic that some of the same interests who have long criticized excess processing capacity levels in the Atlantic fishery are now supporting the duplication of such capacity at sea.

Of the current total allowable catch of 266,000 metric tons for northern cod, close to 30,000 metric tons of northern cod are already taken for processing in plants which are not adjacent to the resource, with a loss of about 750 person-years of employment. The approval of factory freezer trawlers

would over time aggravate this loss of jobs and diminish the natural tendency to utilize existing onshore capacity. The total allowable catch of northern cod is unlikely to increase in the near future as fast as initially projected. Therefore, further encroachment upon the northern cod fishery will strike at one of the most important regional development opportunities available to Newfoundland. Furthermore, it would compromise the opportunity for a viable middle-distance fishery which would allow Newfoundland to stabilize processing activity in many of its seasonal fish plants.

Finally, some groups appear ready to support factory freezer technology as long as such technology is excluded from the Gulf of St. Lawrence. This clearly reflects a general view, outside Newfoundland, that the only area which should be designated for factory freezer trawler deployment is eastern and northern waters adjacent to Newfoundland and Labrador. This leaves the Government of Newfoundland and Labrador with no choice but to take a firm stand against the technology in question.

5. "LA BRETAGNE" DISPUTE

Canada and France have, since 1972, been parties to the Agreement between Canada and France relative to specific fishing matters. This Agreement governs activities of vessels registered in Metropolitan France to fish in the Gulf of St. Lawrence, as well as the fishing activities of vessels registered in Saint Pierre/Miquelon. The fishing by metropolitan French vessels in the Gulf is to expire on May 15, 1986. At the same time, a particular dispute has arisen with respect to the use of factory freezer technology in Canadian waters by vessels registered in Saint Pierre/Miquelon.

The parties have agreed to refer to arbitration under the 1972 Agreement the dispute between the two countries over the conditions Canada has attached to the fishing license issued to La Bretagne - a French factory freezer trawler registered in Saint Pierre/Miquelon. Under the terms of its Canadian license, La Bretagne can fish in the Gulf of St. Lawrence but may not use its filleting equipment. Canada rejected the vessel's application to fillet at sea on the basis that it would be inconsistent with the prohibition imposed on Canadian vessels, and that vessels of Saint Pierre/Miquelon registry must fish on an "equal footing" with Canadian vessels, under Article 4 of the Agreement.

A change in Canadian policy to permit licensing of factory freezer trawlers could seriously prejudice Canada's "equal footing" argument and undermine the basis on which Canada rejected a filleting license for La Bretagne. The significance of such a change is fully evident when we consider Article 4 of the Canada/France Fisheries Agreement which allows for a maximum of ten French trawlers registered in Saint Pierre/Miquelon of a maximum length of 50 metres to fish along the coasts of Newfoundland, off Nova Scotia (Bay of Fundy excepted) and in the Gulf of St. Lawrence **on an equal footing** with Canadian trawlers. Any relaxation of the existing federal policy could seriously weaken Canada's arguments concerning the meaning of "equal footing" before the Board of Arbitration in this particular dispute.

As the method of assigning quotas to Saint Pierre/Miquelon vessels in the Gulf is unclear (and will not be resolved in the La Bretagne Arbitration) it would be irresponsible to make a change in policy which might allow a Saint Pierre/Miquelon fleet of up to ten factory freezer trawlers to fish on a "equal footing" with Canadian vessels. Such a change in policy could easily undermine the approach taken by Canada to date on this difficult issue.

6. GREATER UTILIZATION OF ENTERPRISE ALLOCATIONS

National Sea Products has indicated that it plans to draw 50 per cent of the fishing plan for a factory freezer trawler from currently unutilized enterprise allocations. Moreover, it asserts that the enterprise allocations system permits no encroachment on the inshore fishery or on offshore stock levels. There are reasons to believe that both of these propositions may be inaccurate.

Contrary to what has been suggested, Canada has not encountered major difficulty in harvesting Sub Area 2+3 (Eastern Newfoundland waters) redfish in recent years because of technological difficulties. In past years, Canadian companies have successfully demonstrated that the most attractive redfish stocks can be effectively harvested using existing wetfish trawler technology. For example, in 1982 and 1983 National Sea harvested 6,438 and 5,619 tons of 3LN redfish respectively from Enterprise Allocations of 6,230 and 8,320 metric tons. Indeed, the 1984 catch rate level for this stock is the highest ever recorded. The federal Discussion Paper also takes exception to the National Sea contentions: "the allocations have been underutilized not because of harvesting difficulties, but because of market requirements, of restructuring activities within these companies, and a strike of trawlermen in Newfoundland".

It should be noted that any deployment of factory freezer technology to such species as capelin, squid, mackerel and herring, will have a dramatic negative impact on the inshore fishery. In addition, the marketing of these products from most seasonal plants in Newfoundland will be adversely affected. Our processing sector has demonstrated that it can effectively exploit and market these species with inshore technology, notwithstanding the fact that it had been previously argued that factory freezer technology was essential to the exploitation and marketing of these species.

Indeed, the rationale of using factory freezer trawlers for harvesting underutilized species can be questioned on other grounds. Some species, like flatfish, cannot be effectively processed by factory freezer trawlers. Others, like headed and gutted redfish and headed and gutted cod are already produced at high quality standards using existing harvesting techniques, either by wetfish trawlers, freezer trawlers or inshore vessels.

National Sea, in its application has noted that enterprise allocations "have made possible a shift from production to market-driven enterprises. The system also holds many other benefits such as improved quality, greater fleet efficiency, better inventory control and a more stable planning environment". The enterprise allocation system is supported by

all offshore companies and the Province of Newfoundland and Labrador, for precisely the reasons stated by National Sea.

It must be asked whether the greater use of factory freezer technology will cast into doubt the very rationale of the enterprise allocation system, especially as changes are presently being considered which may allow periodic redistribution of unutilized enterprise allocations.

Faced with the possibility of acquiring larger enterprise allocations and/or losing allocations, a company would deploy factory freezer trawlers against underutilized quotas, in order to demonstrate the ability to harvest its quotas and the unutilized quotas of other companies, even if market conditions dictated otherwise. All companies, as a defensive measure, would be forced to acquire the same technology in order to preserve their allocations. The natural result would be a dramatic expansion in the use of factory freezer trawlers, and a return to the counterproductive supply-driven philosophy which prevailed before the introduction of the enterprise allocation system.

Thus, the introduction of factory freezer trawlers would lead to a period of very unstable offshore fishing patterns based on all companies using factory freezer trawlers. In the interim, the market-driven strategy will have been destroyed and thousands of onshore processing jobs lost to introduce an un-

necessary and inefficient technology into the east coast fishery.

It should be remembered that enterprise allocations are not a company resource, but a quasi-property right to be regulated in the public interest.

The stability associated with the enterprise allocations system would be eroded if factory freezer trawlers were to be allowed to prosecute the fishery off the Atlantic coast. Therefore, in the interest of the fishing industry and the economy at large, it would be inappropriate to support any course of action which would undermine the marketing discipline which has characterized the Atlantic groundfish industry in recent years. Factory freezer technology would indeed undermine rather than enhance such a disciplined market strategy.

7. ECONOMICS OF FACTORY FREEZER TRAWLERS

National Sea indicates that the primary reason for the bid to acquire a **used** factory freezer trawler is that the operation of such a vessel would be highly profitable and could enhance the financial stability of the firm. This argument deserves scrutiny. It is solely relevant to the short-term; is inconsistent with European comparative work; and is based on a limited consideration of the range of options open to National Sea for it to achieve higher utilization of its Enterprise Allocations and improved profitability. In short, the National Sea application is based on the fact that National Sea can acquire a **used** factory freezer trawler for about $5 million. This is a unique short-term situation which exists simply because certain nations are moving away from distant water technology at the same time that National Sea wishes to acquire this technology.

There is no firm data to indicate that a new Factory Freezer Trawler would be profitable. It is highly unlikely that a new Factory Freezer Trawler could be acquired at the estimated price of $20 million. A more realistic estimate would be $28 to $30 million, and even more, if a Canadian shipyard were engaged, notwithstanding certain tax advantages. The extra $20 million to $25 million cost of a new vessel would certainly reflect adversely on the company's cash-flow position and inevitably erode any economic potential associated with the use of a new factory freezer trawler, which will be required

at some point. This, in turn would lead to increased pressure to access more profitable species such as cod, and therefore increase the demands on resources in waters adjacent to the northeast coast of Newfoundland and Labrador.

SUMMARY

Factory freezer trawler technology is not a prerequisite for the development of the Canadian Atlantic fishery. Arguments favouring its introduction have distorted our economic and social objectives. Canadians can and must choose between methods of harvesting our resources which benefit our economy and society, and those which do not. This paper clearly demonstrates that factory freezer trawler technology is an unnecessary and inappropriate technology.

In summary, the policy arguments which support a reconfirmation of Canada's factory freezer trawler policy are:

(1) A change in the policy with respect to northern cod would violate Clause 12 of the Federal/Provincial Restructuring Agreement and cast doubt on the security of all federal/provincial agreements in Canada.

(2) A change in the policy would undermine the superior quality reputation achieved by Canadian premium fish exports using existing technology.

(3) A change in the policy would cause great net loss of employment and imperil the economic security of many communities dependent upon the fishing industry.

(4) A change in the policy would represent a negation of Canada's natural advantage of adjacency to fish stocks and contradict the key tenet of Canada's economic and development policies.

(5) A change in the policy would have negative implications for the favourable resolution of the La Bretagne dispute.

(6) A change in the policy would threaten the very rationale of the enterprise allocations system by inviting the reintroduction of a supply-driven fishery.

(7) A change in the policy would reflect a sacrifice of the long-term economic viability of the offshore fishery for the short-term gains that are allegedly available through the acquisition of second-hand technology.

To conclude, Canada does not need a distant water fishing technology. The economic and social costs of allowing the unnecessary change of policy are totally unacceptable, given that it has been clearly demonstrated from both a marketing and quality perspective that other technologies can effectively meet the fishing industry's requirements in these areas.